SOCPA
الهيئة السعودية للمراجعين والمحاسبين

VISION رؤية 2030
المملكة العربية السعودية
KINGDOM OF SAUDI ARABIA

18 May 2023

IFRS Interpretations Committee
7 Westferry Circus,
Canary Wharf
London E14 4HD
United Kingdom

RE: IFRS IC Tentative Agenda Decision - Homes and Home Loans Provided to Employees

The Saudi Organization for Chartered and Professional Accountants (SOCPA) appreciates the efforts of the IFRS Interpretations Committee (Committee) and welcomes the opportunity to comment on the *Tentative Agenda Decision – Homes and Home Loans Provided to Employees*.

SOCPA disagrees with the conclusion of the Committee which is merely based on the responses received from the information request, that the matters described in the request are not widespread as SOCPA is aware that the practice exists in many jurisdictions including the Kingdom of Saudi Arabia. The Kingdom of Saudi Arabia has the largest stock exchange by market capitalization in the region and an analysis of 10 large listed entities in the Kingdom of Saudi Arabia indicated that it is a very common practice for employers to provide homes and home loans to employees and the amounts involved are material. Based on the analysis it was further observed that there was diversity in the method of accounting used by these entities when accounting for these transactions.

Although SOCPA believes that the principles and requirements in IFRS Accounting Standards provide an adequate basis for an entity to determine how to account for homes and home loans provided to employees, a clarification by the IFRS IC is desired to clarify the accounting for such transactions. Our conclusion is further explained below:

Fact pattern 1: employee home ownership plans

When to recognize the transfer of the house to the employee:

SOCPA believes IFRS 15 provides the required guidance. Paragraph 31 states:

"An entity shall recognise revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service (i.e., an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset".

Paragraph 33 states "…. Control of an asset refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. Control includes the ability to prevent other entities from directing the use of, and obtaining the benefits from, an asset…"

In addition, the arrangement fulfills several indicators of the transfer of control listed in paragraph 38,

- a customer is presently obliged to pay for an asset,
- the entity has transferred physical possession of the asset—the customer's physical possession of an asset,
- the customer has the significant risks and rewards of ownership of the asset,
- the customer has accepted the asset.

When the guidance referred to above is applied to the fact pattern 1 it could be regarded that the employee controls the house from day 1, even though there is a possibility that the employee could leave the entity during the first 5 years and will be required to forfeit the house. The possibility of a forfeiture as given in the fact pattern is similar to a "sale with a right of return" as detailed in paragraph B20 of IFRS 15 and would not have any bearing on recognition of the sale on day 1.

Accounting before and after the transfer:

As the sale of the house is recognised on day 1, there would not be any change to this after the transfer as the customer has control of the asset (house).

As with the initial 5 years, if an employee does leave the entity after 5 years and decides to forfeit the house, as stated above, this would be similar to a sale with a right to return and will be accounted for accordingly.

Fact pattern 2: employee home loans

Accounting as a prepaid employee benefit within the scope of IAS 19 Employee Benefits or a financial asset within the scope of IFRS 9 financial instruments, with the below-market element of the loan accounted for as a prepaid employee benefit by applying IAS 19:

Day 1 and during period of employment:

Although the entity provides a below market or interest-free loan to employees, it cannot be considered a financial asset at the time the loan is granted as it does not meet the definition of a financial asset as per paragraph 11 of IAS 32.

In order for this amount to be recognized as a financial asset, the receivable should be a contractual right to receive cash or another financial asset from another entity; or should be able to exchange the financial asset with another entity under conditions that are potentially favourable to the entity. However, in the fact pattern the entity's intention is to recover the loan through salary deductions during the period of employment. Therefore, it does not meet the definition of a financial asset.

The loan granted to the employee is therefore effectively an employment benefit that is prepaid. This prepaid amount is recognized as an expense during the period of service. The expense for each period would depend on the arrangement the entity has with the employee regarding the recovery of the loan.

If employee leaves employment:

If at a subsequent date the employee decides to leave employment, the fact pattern states that the outstanding balance of the loan becomes repayable. At this point, the entity would reclassify the balance prepaid employment benefit amount as a financial asset as it would now meet the definition of a financial asset in accordance with paragraph 11 of IAS 32.

Please feel free to contact Dr. Abdulrahman Alrazeen at (razeena@socpa.org.sa) for any clarification or further information.

Sincerely,

Dr. Ahmad Almeghames

Chief Executive Officer